

BILL # SB 1170

TITLE: tax credit; library contributions

SPONSOR: Martin

STATUS: As Amended by Senate FIN

REQUESTED BY: Senate

PREPARED BY: Chris Cranny/Tim Everill

FISCAL ANALYSIS

Description

This bill establishes an individual income tax credit for cash contributions made to public libraries in Arizona. The cap on donations is \$200 for a single person and \$400 for a married couple in a taxable year. The credit is non-refundable, but any unused credit may be carried forward for five consecutive taxable years. The credit provides a dollar for dollar reduction in tax liability (up to the cap) for every dollar contribution made to a public library. The adopted amendment adds a definition of “public library.” Academic libraries, school libraries and federal libraries are not included in the definition.

Estimated Impact

The JLBC Staff cannot determine the General Fund revenue loss with certainty. By making a donation essentially “free,” a dollar-for-dollar tax credit can significantly change consumer behavior. Based on current levels of donations, the credit would appear to have less than a \$100,000 revenue loss. Given the increased economic benefit to taxpayers of library donations, the JLBC Staff expects that amount to increase under the bill. As a possible comparison point, the current low-income charity credit has an annual cost of approximately \$1.4 million.

The Department of Revenue (DOR) does not have a cost estimate for this bill. DOR estimates that if 1% of single individuals and married couples claim the full credit, the cost to the General Fund would be approximately \$5.7 million. If 5% of single individuals and married couples claim the full credit, the cost to the General Fund would be approximately \$28.4 million.

Analysis

Based on available data from Phoenix and Tucson public libraries, current cash contributions from private individuals total only about \$32,000 per year. However, as noted above, we cannot determine how this bill will impact taxpayer behavior. Under this bill, a contribution made to a public library essentially becomes “free” up to the cap amount, because every dollar contributed reduces the taxpayer’s liability by an equal amount. This will provide taxpayers with more incentive to make contributions to public libraries.

As a comparative example, approximately 8,000 claims were made for the contribution to low income charities tax credit in tax year 2001 (latest available data), for a total credit amount of \$1.4 million. This individual income tax credit is allowed for cash contributions to charities who serve the working poor, and is capped at \$200 for both single persons and married couples. The amount of the credit is based on the increase in a taxpayer’s contribution over a base contribution amount, which is defined as the taxpayer’s contribution in tax year 1996. The credit was established in 1998, with approximately 2,900 taxpayers taking advantage of the credit the first year, at a cost to the state of about \$400,000. The number of taxpayers increased significantly over the next three years, as more people took advantage of the dollar for dollar opportunity to make charitable contributions.

The amendment adopted by the Finance Committee adds a definition of a public library to the bill. While not specifically excluded in the definition, it does not appear that academic and school libraries are included under the definition. If they were, the potential revenue loss to the state could increase dramatically.

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Local Government Impact

Incorporated cities and towns receive 15% of individual and corporate income taxes as urban revenue sharing. Accounting for the two year lag in the distribution of urban revenue sharing, this bill could have an undetermined impact on local government beginning in FY 2008. In the low-income charity example noted above, the loss to local jurisdictions would be \$210,000.

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